



Legislative Research Council

MINUTES

Highway Needs and Financing Committee

Senator Mike Vehle, Chair
Representative Mary Duvall, Vice Chair

Second Meeting
2014 Interim
August 26 and 27, 2014

Room 413, State Capitol
Pierre, South Dakota

The second meeting of the Highway Needs and Financing Study Committee was called to order by **Senator Mike Vehle**, Committee Chair, at 8:20 a.m. in room 413 of the State Capitol in Pierre.

A quorum was determined with the following members answering the roll call: Senators Bob Ewing, Jean Hunhoff, David Omdahl, Larry Tidemann, Mike Vehle, Chuck Welke, and Jim White; Representatives David Anderson, Gary Cammack, Mary Duvall, Scott Parsley, Jim Peterson, Jim Schaefer, Mike Verchio, and Dick Werner.

Staff members present were Fred Baatz, Principal Research Analyst; Amanda Jacobs, Research Analyst; Stephanie Gruba, Fiscal Analyst; David Ortbahn, Chief Analyst for Research; and Traci Thompson, Legislative Secretary.

NOTE: For purpose of continuity, the following minutes are not necessarily in chronological order. Also, all referenced documents distributed at the meeting are attached to the original minutes on file in the Legislative Research Council (LRC) and some documents can be found on the LRC website at <http://legis.sd.gov/Interim/CommitteeDocuments.aspx?Session=2014>.

Senator Vehle, began the meeting by reminding the committee of the task in front of them which is to determine current transportation funding, where transportation funding needs to be, and the solution to reach that goal.

Approval of Minutes

REPRESENTATIVE CAMMACK MOVED, SECONDED BY SENATOR OMDAHL, TO APPROVE THE MINUTES OF JUNE 17, 2014. The motion prevailed unanimously on a voice vote.

Highway Needs and Financing Subgroup Reports

There were six regional meetings held across the state to discuss surface transportation needs and funding solutions. Senator Vehle challenged each person at these meetings to propose a solution or solutions. There were approximately 360 people in attendance with about 110 people testifying.

Senator Jean Hunhoff gave an overview of the meeting in Yankton. **Representative Mary Duvall** shared information gathered at the meeting held in Sioux Falls. Those reports can be found online at our website under the meeting documents from the July 1, 2014, meeting. <http://legis.sd.gov/docs/interim/2014/documents/HNF07-01-14YanktonSubgroup.pdf>

Senator Chuck Welke presented information gathered at the Watertown meeting. **Representative Dick Werner** gave an overview of the meeting held in Aberdeen. Those reports can be found online at our website under the meeting documents from the July 2, 2014, meeting. <http://legis.sd.gov/docs/interim/2014/documents/HNF07-02-14WatertownAberdeenSubgroupReport.pdf>

Representative Gary Cammack shared information that was gathered from the meeting held in Belle Fourche. **Representative Jim Schaefer** gave highlights from the meeting in Rapid City. Those reports can be found online at our website under the meeting documents from the July 23, 2014, meeting. <http://legis.sd.gov/docs/interim/2014/documents/HNF07-23-14BelleFourcheRapidCitySubgroupReport.pdf>.

Senator Vehle commented that he felt these regional meetings were a great idea because it gave local people a chance to voice their concerns and to offer possible solutions.

Value of Quality State and Local Road and Bridge Infrastructure System

Aaron Scheibe, Deputy Commissioner, Governor's Office of Economic Development, introduced himself to the committee and said that he was in agreement to the importance of good highways with regard to business competitiveness and economic development. He stated that the United States Chamber of Commerce has placed a high level of importance on good infrastructure to get products to and from the plants. Highway access is a critical concern in determining whether or not a business will be successful. He went on to say that although the trucking industry isn't a huge portion of our business in South Dakota, it is the second healthiest sector in America and affects almost every type of business. Mr. Scheibe also mentioned that good surface transportation is always a big concern when attracting new businesses. With good surface transportation, we can attract new businesses and new businesses create new jobs.

Representative Scott Parsley asked whether truck traffic has increased with the shortage of rail cars. Mr. Scheibe didn't have that information with him, but offered to find the answer for the committee.

In response to a recent CNBC report that showed South Dakota had dropped out of a list that highlighted the top ten places to do business, Mr. Scheibe said that when the recession hit, South Dakota was in better shape than most states, but with the over-all economy improving across the nation, other states are catching up. Good highways are a huge asset, but right now, the business community is feeling that the poor condition of the roads across the county is affecting their business.

Lucas Lentsch, Secretary, Department of Agriculture, introduced himself and began by saying that the number one industry in South Dakota is agriculture. This sector accounts for 30% of the total industry or \$25.6 billion and accounts for 115,000 jobs. The diversity of our

agriculture producers has made good surface transportation vitally important. He also mentioned that the Department of Agriculture has done several studies showing individual counties concerning different options for improvement and a big determining factor in what could be done was based on the county road system. It was determined that many of our township and county roads require work. He also stated that infrastructure was the key investment for the future. Mr. Lentsch finished by saying that we need bold leadership to look toward solutions to address this problem.

In response to a question regarding rail traffic, Mr. Lentsch said that they have been generally pleased with the rail system in South Dakota, but with bumper crops from this year, the number of rail cars available in South Dakota has been insufficient.

Senator Vehle was concerned with South Dakota's ability to compete in a world market with our agriculture commodities, of which Mr. Lentsch replied that if there is a possible inability to deliver our agriculture commodities on schedule, other countries will look elsewhere for those commodities. Our infrastructure is getting to a point of being unable to keep up with deliveries.

Liza Clark, Senior Policy Advisor, Governor's Office on behalf of the Department of Tourism, introduced herself and said that she was filling in for Secretary Hagen who was at the National Tourism Conference where he had just received the *Tourism Director of the Year* award. Ms. Clark told the committee that tourism is the second largest industry in South Dakota. Good roads are imperative to get tourists to where they want to go. While commenting that state highways are important to get travelers to the larger attractions, she also stressed the importance of local roads in getting tourists to the more rural attractions.

When asked what the three largest attractions are in South Dakota, Ms. Clark said that she was unsure of the answer, but that she would have Secretary Hagen find that information and give it to the committee.

Representative Jim Peterson asked a question with regard to how South Dakota's hotel taxes compared to other states. Ms. Clark said that she didn't have the answer to that, but she would look into it.

Doug Hofer, Director, Division of Parks and Recreation, Department of Game, Fish and Parks, started by sharing a PowerPoint, "South Dakota State Park Roads" (**Document 1**), in which he shared information regarding the total number of state parks, visitors, miles of interior roads, miles of connector roads, bridges, parking lots; the condition of the roadway system; and the projected budget and projected cost to maintain the state park system.

Mr. Hofer also passed out information entitled, "South Dakota State Park System, Road Funding Challenge, Division of Parks and Recreation, 8/26/14" (**Document 2**), and "County/Township Roads, Providing Access to the State Park System, 8-22-2014" (**Document 3**). Mr. Hofer told the committee that nationally, South Dakota has always been recognized for having great parks and great boating and fishing, but with the decline in funding for road maintenance and road upgrades, we are at risk of losing that status.

Mr. Hofer also mentioned that while roads and bridges within the park are generally in good shape, the connector roads that are leading to the state parks and boat ramps are in greatest

need of repair. As funds decline, those roads are not being maintained and the counties and townships do not have enough money in their budgets to address these needs. The number of visitors will decline if the roads leading to these sites are in poor condition.

When asked whether the Department of Game, Fish and Parks had a dedicated revenue source specifically for roads, Mr. Hofer responded by saying that the most significant capital improvement need determines where the money goes. The roads are a significant expenditure, but everything is still based on prioritization.

In response to questions regarding how our state park fees compare to other surrounding states, Mr. Hofer said that South Dakota fees are very comparable. He continued by saying that these fees increased 10% last year and it is the biggest source of revenue for the Parks and Recreation Division.

Federal, State and Local Highway Funding

Jaime Rall, Program Manager, Transportation, National Conference of State Legislatures (via telephone) shared a PowerPoint presentation, "Getting There From Here: State Funding Options for Transportation Projects" (**Document 4**). This presentation shared information regarding the national transportation funding crisis, the importance of transportation infrastructure, trends taking place to solve the funding shortfall, relevant legislative activity and other options that states are evaluating. She mentioned that states have continued to lead the way in finding solutions to help with this crisis.

When asked how states, counties and townships were raising revenue for road structures, Ms. Rall responded by giving some examples of what was being done in other states. She went on to say that the National Conference of State Legislatures doesn't track local initiatives, but they do try to watch what is being done and she would send information to Fred Baatz regarding what local option taxes that were being allowed along with the link to a published report completed two years ago titled, "Transportation Governance and Finance." The report provides information on how states allocate revenue to localities. She concluded by saying that much of the information could be found at their website listed on the last page of Document 4.

Sean Slone, Program Manager, Transportation Policy, Council of State Governments, handed out his written statement (**Document 5**), and presented a PowerPoint, "State Transportation Funding 2014" (**Document 6**), which gave information on the past 2008 Council of State Governments Policy Resolution on Reauthorization with the upcoming expiration of SAFETEA-LU in 2009. While the current federal transportation bill, MAP-21, which passed in 2012, has done many good things, Mr. Slone stated that it hasn't provided adequate funding and it didn't address the long-term future of the Highway Trust Fund which has seen decreasing motor fuel tax revenue. With the shortage of funds on the federal level, states shouldn't expect the federal government to come up with a solution. He went on to say that South Dakota is in great shape right now, but it will get much worse if it is not kept up. He also mentioned that there may not be a federal program to fund transportation costs in the future and that constituents need to be aware of this fact. He encouraged the committee members to look for a solution that would be adequate, fair, transparent and sustainable.

Response to Committee Questions

Peggy Laurenz, Director, Division of Motor Vehicles, Department of Revenue, passed out a packet of information (**Document 7**, which includes the Memo from July 22, 2014, and the Memo from August 12, 2014, along with a few other items), that clarified information that had been sent to the committee in response to questions posed by the committee at the June 17, 2014, meeting and during the interim.

Darin Bergquist, Secretary, South Dakota Department of Transportation (SDDOT), addressed questions from the June 17, 2014, meeting and began by explaining that the federal government used to dedicate funds for county and local bridges, but those funds were no longer mandated after MAP-21 was implemented in 2012. The state, however, has continued to fund the \$8,000,000 that is no longer required by the federal government. Historically the money has been allocated on a first-come-first-served basis with a limit of one structure per county per year. However, needs and demands have changed and costs have continued to rise. Mr. Bergquist said that a transportation advisory committee has been created to try to decipher the needs based on priority with the help of a software program.

Mr. Bergquist went on to say that currently the federal government has extended MAP-21 through May, 2015, which was set to expire on September 30, 2014, but there is no guarantee that the money will last until that time. On the federal government side of things, there is no budget solution passed by Congress for surface transportation funding.

Senator Vehle asked a question in regards to how bid letting projects were affected if the state didn't know whether or not the 80% federal match would be available. Mr. Bergquist answered by saying that the state knows how much money they have available and can let projects they know are not dependent on additional federal funds. As funds come in from the federal government, more projects that use these federal funds will be let. When asked if the federal government would fund a project that was already obligated, Mr. Bergquist said that if federal dollars run out before May 2015, there is no guarantee that the project will be federally funded.

In response to a previous question regarding technological advances made to help maintain roads and bridges, Mr. Bergquist handed out a document, "Application of Research & Technology in the South Dakota Department of Transportation" (**Document 8**), which highlights many advances that have been made by the Department of Transportation.

Mr. Bergquist also handed out a pie chart, "Ideal Pavement Distribution" (**Document 9**), which showed the condition of the pavement across the state. Mr. Bergquist said that he didn't feel the department would be able to maintain the current road conditions.

When asked what additional resources were needed to maintain the state highway system in their current condition, Mr. Bergquist passed out information, "State Funding Highway Needs" (**Document 10**), showing the average yearly additional funding needed over the next ten years would be estimated at \$143.2 million.

Overview of Alternative Finance Solutions for the Road and Bridge Infrastructure System

Fred Baatz, Principal Research Analyst, Legislative Research Council, handed out a chart, “Highway and Bridge Finance Options” (**Document 11**), showing current and additional revenue that could be raised for surface transportation projects based on suggestions recommended by attendees at the regional Highway Needs and Financing Committee subgroup meetings. Mr. Baatz stated that the information was gathered from multiple sources and due to varying situations, the numbers could change and be revised.

Public Testimony

Mark Lee, Chamber of Commerce, Sioux Falls, stated the importance of not only a good state highway system, but also safe county and township roads. While the Chamber of Commerce hasn’t taken a position on a solution, he said that they were hoping to be part of the process for finding a solution for good infrastructure where there wouldn’t be winners and losers.

Matt Sibley, South Dakota Farmers Union, introduced himself and began his testimony by saying that the condition of the roads and bridges across the state need to be in good condition in order for businesses to be profitable but was fearful that the burden may be placed solely on the agricultural community. With good roads being important to the agricultural community, he said that they would be happy to be a part of the solution, but with many other industries across the state also benefitting from good roadway systems, he was hopeful that the solution would be a group effort. He also mentioned that there was concern that money collected for county roads and bridges may end up in a state or other county fund and used for something other than roads and bridges.

Wayne Smith, Executive Director, South Dakota Farm Bureau, began by thanking the committee for taking the time to look forward into this issue. He went on to say that the South Dakota Farm Bureau was especially concerned with the condition of the county and township roads and bridges. They recognize the need to prioritize projects with the funding they can afford. Mr. Smith then shared the South Dakota Farm Bureau policy in supporting the effort to improve highway funding by a combination of the following:

- Increase license plate fees;
- Increase the tax on gasoline and diesel;
- Establish the same tax rate for all road fuels; and
- Increase the excise tax on motor vehicle purchases.

Mr. Smith also stated that while the policy development review process was currently underway and wouldn’t be completed until their November annual meeting, the Farm Bureau would also like to suggest a surcharge on fishing and hunting licenses and dedicate that revenue specifically for county and township roads. He mentioned that other ideas were also being discussed around the country, but was unsure whether or not these would become policy until the annual meeting. On a final note, Mr. Smith said that the Farm Bureau does oppose removing the sales tax exemption on agricultural inputs.

When asked a question regarding the need for all county roads, Mr. Smith replied by saying that he would like local boards to look at this issue and see if all local roads are needed.

County Bridge Needs

Greg Vavra, South Dakota Association of County Commissioners and South Dakota Local Transportation Assistance Program (LTAP), presented a PowerPoint, "Local Bridges, Small Structures and Pipe" (**Document 12**), which gave an overview of the local bridge deficiency, average replacement costs, funds currently set aside for local bridge projects, how needs are determined, and the wait expected before a project will be let for bid.

Mr. Vavra concluded by explaining that, according to recent information from the Department of Transportation, there are currently 1,045 structures that are eligible for replacement according to federal guidelines. With the \$8,000,000 allocated for bridge projects, there were 26 bridges that were recently replaced, which only accounts for about 2.5% of the total deficient bridge projects. As costs continue to rise, fewer structures will be able to be fixed each year. If these bridges were replaced within the next ten years, it would cost approximately \$240 million.

Dawna Leitzke, Executive Director, South Dakota Petroleum and Propane Marketers Association, introduced herself to the committee and mentioned that she had been able to attend five of the six regional meetings. Of the ideas mentioned, she said that she was most receptive to securing the future money generated from the tank inspection fee for highway and bridge funding. She strongly believes that the ethanol producers' incentive payment obligations need to be fulfilled, but as ethanol plant payments are completed, the money should be secured for the Department of Transportation.

Ms. Leitzke also said that currently there are nine different tax rates on the different types of fuel. She stated that she would advocate for all fuels being taxed at the same rate of \$0.22/gallon.

In response to a question about whether or not dyed diesel should be taxed, Ms. Leitzke said that she would like the industry to be comfortable with the idea, but she thought it should be considered.

The committee went into recess at 5:00 p.m. and will reconvene at 8:15 a.m. Wednesday, August 27, 2014.

Enforcing the Regulations Relating to the Operation of Motor Vehicles

Trevor Jones, Secretary, South Dakota Department of Public Safety and Colonel Craig Price, Superintendent of the South Dakota Highway Patrol shared a PowerPoint (**Document 13**), which gave the committee a variety of information regarding the number of law enforcement officials that are equipped to handle motor carrier infractions, where they are located within the state, the number of permits issued, revenue generated by citations, a comparison of permit and citation revenue, an explanation of how overweight penalties are calculated and where the fine revenue is allocated.

In response to a question regarding fluctuation of the annual number of fines, Mr. Jones stated that the Division of Motor Carriers has had issues with being fully staffed and, with the shortage of motor carrier officers, the number of fines recently assessed are lower. When asked how many full time employees (FTE) the Division of Motor Carriers employ, Mr. Jones said the division was budgeted for 61 FTEs, but is currently at 56 FTEs. A combination of the expertise required and the relatively low salary were cited as the primary reasons for being under-staffed.

Representative Dick Werner asked whether or not the mobile teams were able to help the counties. Mr. Jones responded by saying that if a county would like assistance, the county commissioners would need to request help and then pass an ordinance, which the Department of Public Safety can help with, as to which roads they would like the mobile units to enforce. From there, the Motor Carrier Division will assist as much as they can. He did not have the number of times that the mobile teams have assisted counties, but he said that he would find that information and let the committee know.

When asked how much is charged for an oversize permit and how our fees compare with surrounding states, Colonel Price said that the base permit is \$25.00 and then additional fees are added based on the weight of the vehicle and the miles traveled. Colonel Price said that he didn't have the exact number that other states charge, but it appears that South Dakota is on the lower end of permit fee cost. Mr. Jones said that he would find out how our permit fees compare with neighboring states and when South Dakota rates were last adjusted.

Regarding the fine charged if a permit is not acquired, Colonel Price said that there is a base fine of \$170.00 and then a civil penalty is added based on the poundage over the legal limit.

Response to Committee Questions from the Previous Day

Darin Bergquist, Secretary, South Dakota Department of Transportation, began by answering a question from the previous day regarding the amount of revenue generated from road sign fees. He said that these programs were not revenue makers for the state and that the funds collected went primarily for installation and replacement costs.

When asked about bridge structural health, Mr. Bergquist said that 90% is a good target number. At an index of 90, a bridge is fully functional, it just isn't new. He went on to say that the methodology for rating bridges change over time and therefor the bridge index may change. When asked if all states use the same system to rate bridges, Mr. Bergquist said that each state can use different measures and therefor it isn't uniform. With regard to the State Highway Funding Needs chart for bridges that was passed out yesterday, he stated that the revenue needed was an average. Bridge structures are typically expected to last eighty years, maintenance is relatively inexpensive, but when bridges need to be replaced, it comes at a very large cost, so that is what is factored in.

In response to a question regarding condition comparison from before the stimulus money in 2008 and current condition, Mr. Bergquist handed out a chart (**Document 14**), that showed pavement condition in 1999, 2008, and 2014 along with projections that had been made.

Mr. Bergquist clarified information that was handed out the previous day by saying that the projections shown on the State Highway Needs Chart were put together with a projected “no change” in the on-going sharing of federal revenues with local government entities.

When asked whether or not all state roads were needed, Mr. Bergquist said that if a state road were to be removed from the state highway system, the department would have to go the Legislature and then have an agreement with a local entity who would agree to take the management over.

Local Government Road and Bridge Needs and Solutions

Dick Howard, SD Association of Towns and Townships, introduced himself to the committee and shared a PowerPoint “SD Township Road Condition and Cost Assessment” (**Documents 15 and 16**), which gave information on the value of property tax revenue with regard to road inventory and maintenance needs. Mr. Howard stated that even though 85% of township revenue is spent on roads and bridges, it is still not enough. With budget shortfalls and emergencies, maintenance has been deferred over the past twenty years which has caused conditions to decline. Mr. Howard said that it is estimated that \$30.5 million are needed annually to maintain the roads at the target level.

Jason Handcock, Director, Legislative Research Council, introduced himself to the committee.

Greg Vavra, South Dakota Association of County Commissioners and South Dakota Local Transportation Assistance Program (LTAP) shared information, “County Road and Bridge Needs” (**Document 17**), which discussed current conditions of county roads and bridges and the funds needed to complete the projects.

Jim Schmidt, South Dakota Association of County Commissioners, Lincoln County, introduced himself and handed out proposed legislation that could raise county revenue (**Document 18**). Mr. Schmidt said that he would like to see more control given to local governments and inflation caps regarding property tax limitations removed so that counties are able to raise revenues as needed. He also discussed the importance of county prioritization. He finished by saying that he understands that a one-size plan will not fit all. What may work for a larger county may not work for a smaller one, but the time to act is now. Mr. Schmidt said that the South Dakota Association of County Commissioners takes this responsibility seriously and would like to be partners in finding a solution.

Public Testimony

David Owen, South Dakota Chamber of Commerce and Industry, began by saying that his organization is a diverse group and a large percentage of his membership are made up of manufacturers. There are 1,100 manufacturers in South Dakota which employ 43,000 people. Infrastructure is very important in getting agricultural products to these manufacturing sites. He continued by saying that the roads and the number of vehicles on the roads have been studied for several years, now is the time to study funding options that are politically possible. He continued by saying that he felt user-based fees would be better received from the public. He

concluded by adding that he would like to see everyone work together in coming up with reasonable solutions that are easy to administer.

Shawn Lyons, South Dakota Retailers' Association, told the committee that he wanted to recognize Senator Vehle for the work he has done on this issue. He continued by saying that the regional subgroup meetings have been good for allowing for public feedback. After reading a quote from his predecessor in 1910 on the importance of good roads for merchants, he stated that the same holds true today. Merchants still need good roads to get their merchandise and also to sell their merchandise. Mr. Lyons concluded that he would like the solution to come from a group effort and not based solely on a single source. Ballot measures that dedicate money to a single cause, he felt, are difficult to pass. The South Dakota Retailers' Association has not taken a position on this issue at the present time, but they would like to be part of a solution where everyone does their part.

Matthew McCaulley, South Dakota Corn Growers Association, Sioux Falls, presented a PowerPoint, "South Dakota Corn Growers", where emphasis was shown on the importance of good rural roads for moving commodities from field to market. He went on to show that the South Dakota Corn Growers Association support the idea of having a comprehensive plan to provide for the maintenance and improvement of the state and local roads and bridges where the solution doesn't fall on one sector. He also mentioned that a lot of numbers has been discussed and he questioned whether the entire need shown was necessary. After a comprehensive plan has been developed, Mr. McCaulley said that he hopes that existing revenue sources will be used, rather than creating new taxes or user fees.

Larry Engbrecht, American Concrete Pavement Association, introduced himself to the committee and said that he previously worked with the Department of Transportation and believes that the numbers given are accurate and true and that everything that needs to be considered has been taken into account. As far as his association is concerned, stability is what they are seeking. Mr. Engbrecht mentioned that his members are currently doing 1/3 the business they had been doing when they received the stimulus money. If additional money becomes available, Mr. Engbrecht's members would like some time to prepare for the projects. Many members of our workforce have been let go, so contractors would need time to train workers and set up their equipment. This takes a huge investment, and without knowing how much money will be available or whether the program will be stable, contractors won't want to make the investment.

Kathy Zander, Executive Director, South Dakota Grain and Feed Association and South Dakota Agri-Business Association, began by saying that both boards recognize the need for better roads and appreciate the work that has been done and want to be a part of the solution. The shortage of rail cars available to transport the commodities to market is a concern for both associations. One possible solution that had been discussed that neither association was in favor of was the addition of an excise tax on crop inputs. She stated that Colorado had tried that type of tax and they ended up repealing it after the industry lost 20% of their business on crop inputs to other states.

Jodie Anderson, Executive Director, South Dakota Cattlemen's Association, shared her appreciation for being allowed to testify and mentioned that she was in agreement with the other testifiers that good roads are very important. She also went on to share with the

committee that five years ago the Cattlemen's Association had passed a policy resolution supporting additional funding for roads through the increase in license plate fees, motor fuel taxes, and motor vehicle excise taxes. This resolution is now up for review and possible renewal in early December at their annual meeting. Ms. Anderson said that she would be watching for proposals coming out of this committee when determining what they can and cannot support. She then finished by saying that they also felt it was important to have a long-term plan in place.

Deb Mortenson, Roads are Vital Coalition, began by giving an update on the membership of the Roads Are Vital Coalition which now include twenty members with the most recent additions being the South Dakota Agri-Business Association, the Grain and Feed Association, the South Dakota Association of Cooperatives, and the South Dakota Trucking Association. She also mentioned that the third round of television advertisements just concluded on August 24th with the fourth and final round set to air in December and end right before Christmas. The internet ads will continue.

Deb Mortenson, Association of General Contractors, stated that they typically have supported increases in highway funding because there is a definite impact on the safety of their trucks when the roads are in poor condition, but there is also an impact when taxes and user fees are raised. She said that they currently pay a lot of taxes right now. She concluded by saying that she liked to look at the return on investment and was interested in the ideas that would be forthcoming and would probably be supportive. On a final note, she wanted to let the committee know that the Department of Transportation currently has twenty pre-qualified bridge contractors on board right now with ten being currently active in the state.

When asked whether or not we lose some contractors to work on projects in North Dakota, Ms. Mortenson said that contractors travel to where the work is located and when work in South Dakota is slow, our members do travel to surrounding states.

Brenda Forman, Executive Director, South Dakota Association of Cooperatives, introduced herself to the committee and thanked them for all the work they had done so far. She was in agreement that good roads are very important and the numbers for needed financing that are coming in are scary. With the agricultural community being looked upon heavily as a funding source, Ms. Forman wanted the committee to understand that they already pay a lot of the fees and several fees that no one else pays. It was mentioned that if new fees were created, she would like them to sunset so that they can see if the fee is working and if the revenue generated is going for the purposes originally proposed. Ms. Forman also mentioned that she would like to see the wheel tax increased over the four dollar per wheel maximum which is currently in statute. How the funds will be distributed is also a concern. She believes that the state does a good job, but the counties need to make sure that the revenue is going to those areas that it is meant to help. Ms. Forman also had concerns regarding the contractors and the time they need to plan for the projects. In conclusion, Ms. Forman said that the agricultural community wants to be part of the solution, just not the only solution.

Loren Pankratz, South Dakota Soybean Association, South Dakota Pork Producers and the County Commissioners Association, stated that he understands the need and that it will probably require some creative ways of funding. However, the associations he represents could not support a possible per bushel fee or per head fee. Mr. Pankratz finished by saying

that he appreciated the presentation given by Mr. Slone on learning what other states are doing to fund their roads and bridges and would prefer that the committee come up with a plan that would not include new fees.

Review of Recent Legislation Concerning Highway Needs and Financing

Fred Baatz provided the committee with a description of several bills that dealt with increasing revenue that had been introduced since 2011 for state and local road and bridge funding and whether the legislation passed or failed.

Committee Discussion Regarding Draft Legislation Requests for the November 6th, 2014 Meeting

Numerous proposals were made with regard for solutions to address the needs for state and local roads and bridges. Senator Vehle began by suggesting that the following options be considered:

- A benchmark made by the Department of Transportation showing the current conditions of the state roads and bridges and the condition expected over the next ten years; how many dollars it will take to get to these projections; and, if goals are not met, how much money will it take to reach the goal. He also suggested that an index of a 90 rating be used for bridges. If these goals are not met, he wanted to propose that no expansion of new roads be permitted during that time period.
- Raise the current 3% excise tax on motor vehicles by 1% to a new rate of 4%.
- Reduce the current motor fuel tax of \$0.22/gallon to \$0.20/gallon with a 2.5% yearly rate increase and place a 3% wholesale tax on the gas at the rack. Implement 1% at the start of 2015, an additional 1% in 2016, and the final 1% in 2017. The wholesale value of motor fuel could not be taxed at a value of less than \$2.50/gallon.
- Create a special local government bridge fund that would sunset in ten years.
- Tax agricultural land by an additional \$0.20/\$1,000 valuation and deposit the revenue in a special local government bridge fund. This tax would sunset in ten years.
- Impose a tax on dyed diesel at \$0.07/gallon and allocate to a special local government bridge fund. This increase would sunset in ten years.
- Require all noncommercial trucks to be licensed at the same rate as commercial trucks, and continue to allow the seasonal registration.
- Increase registration and license plate fees by 10%. A committee could be formed to evaluate how the funds are currently allocated.
- Require all counties to collect a wheel tax of \$4.00/wheel for four wheels with the option for counties to collect the tax on additional wheels that may be on the vehicle.
- In order to access dollars in the special local government bridge fund, counties must have a road plan similar to the Statewide Transportation Improvement Program (STIP) the South Dakota Department of Transportation implements. Money would be allocated for bridges based on a priority system with regard to need. A county must have the wheel tax implemented to access money from the special local government bridge fund.

Representative Scott Parsley and **Senator Larry Tidemann** both felt money collected locally should be kept at the local government. Senator Ewing stated that local control was essential as they would best know the needs and priorities of their counties.

Senator David Omdahl followed by stating:

- Keep taxes simple and place the same amount of taxation on all types of fuel.
- Remove the property tax limitations placed on townships and let them decide how to fund their road needs.

Senator Tidemann was interested in finding information that shows a comparison of South Dakota and neighboring states' fees on over-weight and over-height/over-width vehicles. His ideas included:

- Raising fees and fines on over-weight and over-width/over-height vehicles.
- Allow counties to increase property taxes by CPI or 3%, whichever is more, rather than less.

Representative David Anderson mentioned that the means to fund roads is primarily the Legislature's responsibility, but does not want to legislate that counties must tax the same amount due to the wide diversity of county needs. He liked the idea of counties developing a plan and working together on priorities.

Representative Mike Verchio was interested in the \$2 million currently allocated to the Department of Game, Fish and Parks and wanted to deposit the money in the state highway fund. The following funds would be redistributed:

- Money currently being deposited into the snowmobile trails fund from the motor fuel tax fund pursuant to SDCL 10-47B-149; and
- Money currently allocated to Game, Fish and Parks based on the number of licensed motorized boats pursuant to SDCL 10-47B-149.

Representative Verchio also suggested increasing the tourism tax by ½% and designating the additional revenue for state roads and bridges.

Representative Parsley suggested:

- Raise the previously proposed 1% increase in the motor excise tax by an additional ½% and designate the extra ½% to the special local government bridge fund which could be accessed by the counties, townships, and municipalities administered by the state after showing that they have a plan for their roads and bridges.
- Remove some of the limitations placed on the counties with regard to the 3% property tax limitation as long as the funds were going to improve their roads and bridges.

Representative Cammack liked the idea of a benchmark with regard to road and bridge conditions. He felt the key to increased revenue for roads and bridges was to keep things simple and user based such as:

- Raise the taxes on gasoline and diesel fuel.
- Increase the motor excise tax by one percent.
- Increase license plate fees across the board.

Representative Peterson suggested allowing the counties and townships to increase their property tax levy similar to recently introduced legislation.

Senator Welke liked the idea of removing the counties' 3% property tax limitation and allowing the local communities more flexibility with solving their problems. He also mentioned that electric and hybrid motor vehicles should be looked at to determine whether additional fees should be applied.

Senator Vehle suggested it might be possible to charge a higher registration fee on hybrid and electric vehicles if it were possible to differentiate between the different types of cars.

Representative Werner commented that he liked the idea of benchmarks to track progress. He also suggested:

- Find a way to index the entire county budget so, as costs rise, it isn't only the property tax portion of the budget that can increase.
- Allow counties to opt-out of the wheel tax mandate if there isn't a need for the money.
- Allow counties and townships the authority to levy a single-purpose property tax levy, not subject to the property tax limitation provisions found in chapter 10-13, for road and bridge purposes similar to the legislation proposed over the last couple of years.
- Address the loss of motor fuel tax revenue by increasing certain registration fees for electric and hybrid vehicles.

Representative Duvall stated that a lot more work would need to be done in order to come up with the funds needed. She would rather not raise property taxes, but would prefer to find other ways of funding that would be more tied to road use.

Senator Jim White mentioned that he was favorable with the extra ½% motor vehicle excise tax increase which would give the state some oversight. As far as allowing the counties and townships to raise the money needed for roads and bridges, he was doubtful that it could be done on their own with the large amount of funds needed. He concluded by saying that there is a lot of work that still needs to be done and that he was hoping for some extra guidance.

Adjournment

A MOTION WAS MADE BY REPRESENTATIVE PARSLEY, SECONDED BY REPRESENTATIVE SCHAEFER, THAT THE HIGHWAY NEEDS AND FUNDING STUDY COMMITTEE ADJOURN. The motion prevailed unanimously on a voice vote.

The committee adjourned at 1:54 p.m.

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